

2019  
ELEMENT OF BANKING  
अधिकोष तत्व

Time : 3 Hours 15 Minutes (समय : 3 घन्टे 15 मिनट)

Full Marks (पूर्णांक) : 100

Instructions for the Candidates :  
परीक्षार्थियों के लियेनिर्देश

1. First 15 Minutes are Allotted for the Candidates to Read the Paper .  
प्रारम्भ के 15 मिनट परीक्षार्थियों को प्रश्नपत्र पढ़ने के लिये निर्धारित है।
2. All Questions are Compulsory .  
सभी प्रश्न अनिवार्य है।
3. (i) Question Nos.1 to 10 are Multiple ChoiceType Questions , of 1 Mark each.  
प्रश्न संख्या 1 से 10 तक बहुविकल्पीय प्रश्न है। प्रत्येक प्रश्न 1 अंक का है।  
(ii) Question Nos. 11 to 20 are Very Short Answer Questions, of 2 Marks each . Each Question to be answered Within 30 Words.  
प्रश्न संख्या 11 से 20 तक अतिलघुउत्तरीय प्रश्न है। प्रत्येक प्रश्न 2 अंक का है जिनके उत्तर लगभग 30 शब्दों में लिखना है।  
(iii) Question Nos. 21 to 26 are Short Answer Questions , of 5 Marks each . Each Question to be answered Within 100 Words.  
प्रश्न संख्या 21 से 26 तक लघुउत्तरीय प्रश्न है। प्रत्येक प्रश्न 5 अंक का है जिनके उत्तर लगभग 100 शब्दों में लिखना है।  
(iv) Question Nos. 27 to 30 are Long Answer Questions , of 10 Marks each . Each Question is to be Solved .  
प्रश्न संख्या 27 से 30 तक विस्तृत उत्तरीय प्रश्न है। जिनका उत्तर 250 शब्दों के अन्तर्गत लिखना है।

## MULTIPLE CHOICE QUESTIONS

Select the correct answers and write them in your answer book:

**Q.1.** The main function of bank is

- (A) collection of cheques and bills (B) providing loan  
(C) providing letter of reference (D) underwriting

**Sol. (B)**

**Q.2.** In which account cheque facility is not provided by Bank ?

- (A) Fixed Deposit Account (B) Current Account  
(C) Savings bank Account (D) None of these

**Sol. (A)**

**Q.3.** The person who writes Bill of Exchange is known as

- (A) Creditor (B) Debtor (C) Endorser (D) None of these

**Sol. (A)**

**Q.4.** Amended format of Balance Sheet of commercial banks was implemented form

- (A) 31<sup>st</sup> March, 1991 (B) 31<sup>st</sup> March, 1992  
(C) 31<sup>st</sup> March, 1994 (D) 31<sup>st</sup> March, 1997

**Sol. (B)**

**Q.5.** The cause of Banking crisis in India was

- (A) abnormal increase in number of banks (B) decrease in cash fund  
(C) lack of central bank (D) all of these

**Sol. (B)**

**Q.6.** Loan facility is provided by indigenous bankers to

- (A) farmers (B) traders  
(C) general public (D) all of these

**Sol. (D)**

**Q.7.** Land Development Bank provides loan for  
(A) very short term (B) short term  
(C) medium term (D) long term

**Sol.** (D)

**Q.8.** Which of the following is included in short term loan ?  
(A) Call money (B) Loan at short notice  
(C) Cash credit (D) All of these

**Sol.** (D)

**Q.9.** Who controls commercial banks ?  
(A) Govt. of India (B) State Bank of India  
(C) NABARD (D) Reserve Bank of India

**Sol.** (D)

**Q.10.** Which services are not provided by Post Office ?  
(A) Sale of postal stamps (B) Sale and purchase of Government  
(C) Sale of postal order (D) All of these

**Sol.** (B)

## VERY SHORT ANSWER TYPE QUESTIONS

**Q.11.** What is the meaning of Unit Banking ?

**Sol.** **Unit Banking** : Unit Banking refers to a bank that is single, usually small bank that provides financial services to its total community.

**Q.12.** What are the advantages of Savings Bank Account ?

**Sol.** A saving account is a deposit account where we can deposit a sum of money and get a modest interest rate.

**Q.13.** Explain the meaning of Non-Banking Assets.

**Sol.** A non Banking assets is an assets of a banking with a company physical value, such as real estate, equipment machinery or a vehicle.

**Q.14.** Which type of securities are kept by bank for given loan ?

**Sol.** Properties, Gold, Insurance policy.

**Q.15.** Explain the meaning of indigenous bankers.

**Sol.** Indegenous bankers are private firms of individual who operate as banks and as such both receive deposits and give loan. They are also financial intermediaries.

**Q.16.** State the advantages of Land Development Banks.

**Sol.** (a) They provide credit for long term requirement for farmers.  
(b) They promote to development of agriculture.

**Q.17.** Write the functions of Foreign Exchange Banks.

**Sol.** (a) Transfer of purchasing power from one country to another country.  
(b) Role in facilitating international in trade and capital movement issuing currency.

**Q.18.** Write the main achievements of State Bank of India.

**Sol.** (a) SBI was Ranked 73 largest Bank in the world  
(b) National award for excellence in CSR and sustainability.

**Q.19.** Write ordinary banking functions performed by Reserve Bank of India.

**Sol.** Banker's Bank and collection of data.

**Q.20.** Write man characteristics of primary co-operative credit societies.

**Sol.** (a) They have been set up at the village level.  
(b) They are mainly given loans for productive work.

## SHORT ANSWER TYPE QUESTION

**Q.21.** Explain the importance of banks in modern economy.

**Sol.** The banks play an important role in the creation of new capital in a country and thus help the growth process.

- Bank arrange for the sale of shares and debentures.
- There are banks known as industrial banks, which assists the formation of new companies.
- They give long term loans to manufactures.
- The banking system can creat money.
- Bank money can be increased quickly.
- The banking system facilitates internal and international trade.
- A large part of Trade is done as credit, bank provide reference and guarantees as behalf of customers on the basis of which sellers can supply goods on credit.
- This is particularly important in international trade.

**Q.22.** Explain the procedure of opening of current account in a bank.

**Sol.** All Indian Banks are allowed to open current accounts. First of

- (a) We approach any bank with the requisite documents and on successfully furnishing all details in the application form, the bankers will verify all documents and on being satisfied, they will open your current account.
- (b) Current Account most banks have minimum quarterly average balance criteria of Rs. – 5,000 to 10,000.
- (c) The following documents are required for opening a current account in India.
  - (i) PAN Card
  - (ii) Partnership Deed
  - (iii) Certificate of Incorporation
  - (iv) A cheque for opening the bank Account
  - (v) Address proof
  - (vi) ID Proof
- (d) The account holder would also be required to complete with all KYC norms.
- (e) All banks provide the facility of Debit card, mobile banking and interest banking for current account user.

**Q.23.** State the items of Capital and Liability sides in the Bank's Balance Sheet.

- Sol.**
- (a) Capital – Capital in nationalized bankers, banking companies incorporated side.
  - (b) Reserve and surplus – Statutory Reserve, capital Reserve, share premium, Revenue and other Reserve balance of profit.

- (c) Depositors – Demand depositors, saving deposits, Term Deposits, Deposits of branches in India and outside India.
- (d) Borrowing – Borrowing in India, Borrowing outside India, secured borrowing included above.
- (e) Other liabilities and provisions – Bills payables, inter-office, adjustment , interest accrued, other provisions.
- (f) Cash and balances with the Reserve Bank of India.
- (g) balances with banks and money at call and short notice.
- (h) Investments.
- (i) Advances.

**Q.24.** “Reserve bank is banker’s bank”. Explain.

**Sol. Banker’s Bank and Supervisor :** The Central Bank acts as a banker and supervisor to commercial banks in various respects :

- (a) It provides financial assistance to banks by discounting their bills and through loans and advances against approved securities .
- (b) **It holds a part of cash reserve of commercial bank in two ways :**  
Part of Cash Balance with themselves (SLR) and another part with the central bank as deposit (CRR).
- (c) The Central Bank regulates commercial bank by giving them License, Branch Expansion, Liquidity of Assets, Management and Winding up of Bank.
- (d) The Central Bank exercise the periodic inspection of commercial banks.

**Q.25.** Describe the loan policy of Land Development Banks.

**Sol.** The Loan granted by land development banks are repayable within 20 to 30 years. Normally, loans are granted up to 20% of the value of the land or upto 30 times the revenue. Loans are granted only after a through verification of security title deeds as well as the necessity for the loan. The rates of interest for LT loans are generally low and within the paying capacity of farmers. They are around 11 to 12%.

**Q.26.** Write the advantages and disadvantages of Co-operative Credit Societies in India.

**Sol. MERITS/ADVANTAGES**

1. **Stable Existence:** Society has its own legal entity distinct from its members. Hence, the continuity of the business is not affected by the death, insolvency or insanity of any member.
2. **Equality in Voting Right:** The cooperative societies are governed by the principle of ‘one man one vote’. Each member has equal voting right irrespective of his capital contribution in the society.
3. **Limited Liabilities:** The members have limited liability to the extent to the capital contributed by them. Therefore, they cannot be held personally liable for the payment of debts.
4. **Economy in Operations:** As the focus is on elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society. So, there is no risk of bad debts.

5. **Ease of Formation:** Minimum 10 members are required to form a cooperative society. The procedure for the registration of the society is very simple and involves a few legal formalities.
6. **Support from government:** Government gives all kind of support to cooperative societies in the form of relief in taxation, subsidies and low interest rates on loans.

#### LIMITATIONS/DEMERITS

1. **Limited Resources/Shortage of Funds:** The capital contributed by the members constitutes the resources base of the cooperative societies. The rate of dividend offered on investment is very low; hence attracting new members and arranging for more capital from the existing members is very difficult for these societies.
2. **Inefficiency in Management:** Managing committee of a cooperative society consists of part-time and inexperienced people. It does not have members with adequate technical knowledge. Even it is unable to employ expert managers because of their inability to pay them high salaries.
3. **Lack of Secrecy:** The Cooperative Societies Act 1912 has made it compulsory for the societies to make their accounts public and to discuss their operations in the meeting of the members. This makes it difficult for the societies to maintain secrecy of their operations.
4. **Government Control:** In return for the benefits provided to the cooperative societies, the government imposes various rules and regulations related to auditing to accounts, submission of accounts and also interferes in their working. Sometimes these regulations affect the freedom in operation of the society.
5. **Differences of Opinion:** Because of opinion differences, there are chances of conflict among its members. The welfare motive of the society may get dominated by the personal interests of members.

### LONG ANSWER TYPE QUESTION

- Q.27.** What is Promissory Note ? What is the difference between Promissory Note and Hundi ? Prepare a specimen of promissory note.

OR

What do you understand by clearing house ? Explain the clearing procedure of clearing house.

- Sol.(A)** A Promissory note is an instrument in writing, not being a bank or currency note containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to the order of a certain person. Under Section 31(2) of the Reserve Bank of India Act a promissory note cannot be made payable bearer. A promissory note has the following characteristics.

<p>₹ 1,00,000 / - only</p> <p>Three months after date I promise to pay Sohan or his order the sum of ₹ One lakh only, for value received.</p> <p>To, Sohan D-15, Pitampura, Delhi-110034</p>	<p>Mohan 84, Sector-1, Noida June 20, 2019</p> <div style="border: 1px solid black; width: 50px; height: 20px; margin: 10px auto; text-align: center;">Stamp</div> <p style="text-align: right;">(Mohan)</p>
Payee	Maker

**OR**

**Sol.(B)** Clearing is a fundamental benefit in the futures markets. Long before a trade is cleared through a clearing house, clearing firms check the financial strength of both parties to the trade, whether they're a big institution or an individual trader.

**Clearing:**

The procedure through which a clearing house becomes the buyer to each seller of a futures contract and the seller to each buyer, and assumes the responsibility of ensuring that each buyer and seller performs on each contract.

Clearing houses provide clearing and settlement services for futures traded at an exchange. They act as the neutral counterparty between every buyer and seller, ensuring the soundness and integrity of every trade.

A country can do without a central bank if it is on fixed exchange rates, such as the gold standard, or otherwise gives up discretionary monetary policy, as when countries dollarize or adopt a foreign currency as their own. In such cases, other institutions fulfill central banking functions: government departments regulate financial institutions, commercial banks safeguard the government's deposits, a currency board administers the fixed exchange rate mechanism, clearinghouses established by banks clear checks, and so forth.

**Q.28.** What is Cash Reserve ? Explain the factors determining Cash Reserve of a bank.

**OR**

What precautions are adopted by banks while granting loans ? Explain.

**Sol.** Cash Reserve is a specified minimum function of the total deposits of customers, which commercial bank have to hold as reserves either in cash or as deposits with the Central bank. The aim here is to ensure that banks do not run and of cash to meet the payment demands of their depositors. Factors determining cash reserve : -

- (a) Nature of Accounts – Bank offers three kinds of accounts as current, saving and fixed deposit accounts.
- (b) Nature of Business – The bank must assets the nature of business of its account holders.



- (c) Size of deposits – The bank should keep large amount of cash reserve. If the account holders deposit large sum of money.
- (d) Use of credit Instruments – The bank should keep high level of cash reserve where people use cheques and credit card.
- (e) Clearing house facility – If clearing house facility available then smaller amount of the cash will be required of because the banks will have to pay the difference of the cheques drawn upon them.
- (f) Area of operation – The area of operations also affects the cash reserve. If bank is located in a city more cash reserve will be required than a bank located in a rural area.
- (g) Saving habits – The bank will have to keep high level of cash return where people use money unnecessarily and where extra vagance in cash.
- (h) Government requirement – In most of the countries where central bank sets the minimum amount of cash reserve that must be maintain by Commercial Bank.

**OR**

- (a) Liquidity – The term liquidity implies the ability to produce cash on demand. A bank mainly utilizes its deposits for the purpose of granting advanced.
- (b) Profit ability – Banks earn profit to pay interest to depositors, declare a dividend to shareholders, meet establishment charges and other expenses provide for reserve and for bad and doubtful debts, depreciation, maintenance etc. So profit is an essential considerations.
- (c) Safety and Security – The bankers should ensure that the barrower has the ability and the willingness to repay the advances as per agreement.
- (d) Purpose – The banker has to carefully examine the purpose for which the advance has been applied for.
- (e) Source of repayment – Before giving financial accommodation, a banker should consider the source from which repayment is promised.
- (f) Diversification of Risk – The security consciousness of a banker and the integrity of the borrowers are not aducate factors to keep the banker on the safe side,
- (g) Social responsibility

**Q.29** Explain the merits and demerits of indigenous bankers in India.

**OR**

State the causes of slow progress of Land Development banks in India. Suggest measures for their remedies.

**Ans. Merits and demerits of indigenous bankers in India.**

**Merits:**

- (a) They provide prompt and flexible credit.
- (b) They gives loans to the small productive commercial bank.
- (c) They have cordial relationship with the customers.
- (d) They keep close contact with their customers and remain fully acquiented with their problems and financial requirement.

- (e) They are not merely bankers to their customers but our also their friends and advisers.

**Demerits:**

- (a) Mixing banking and non-banking business.
- (b) Unorganised banking system.
- (c) Insufficient capital.
- (d) Meagre deposit business.
- (e) Higher interest rate.
- (f) Defective lending.
- (g) Unproductive loans
- (h) Secrecy of Accounts
- (i) Exploitation of customers
- (j) No control of RBI.

**Q.30** State the banking services provided by Post Office in India. How can these services be made more useful ?

**OR**

Explain the objectives and functions of State Bank of India.

**Ans. The main objectives of the State Bank are:**

- (i) To act in accordance with the broad economic policies of the government;
- (ii) To encourage and mobilise savings by opening branches in rural and semi-urban areas and to promote rural credit;
- (iii) To establish government partnership in the provision of cooperative credit;
- (iv) To extend financial help for the establishment of licensed warehouses and cooperative marketing societies;
- (v) To provide financial help to the small scale and cottage industries;
- (vi) To provide remittance facilities to the banking institutions.

The State Bank of India acts as an agent of the Reserve Bank in all those places where the latter does not have its branches.

**State Bank performs the following functions:**

- (i) It acts as the government's bank, i.e., it collects money and makes payments on behalf of the government and manages public debt.
- (ii) It acts as the bankers' bank. It receives deposits from and gives loans to commercial banks. It also acts as the clearing house for the commercial banks, rediscounts the bills of exchange of the commercial banks and provides remittance facilities to the commercial banks.
- (iii) It receives deposits from the public.
- (iv) It gives loans and advances against eligible securities including goods, bills of exchange, promissory notes, fully paid shares of companies, immovable property or documents of title, debentures, etc.
- (v) It invests its surplus funds in government securities, railway securities and securities of corporations and treasury bills.

- (vi) It buys and sells gold and silver.
- (vii) It acts as agent of cooperative banks.
- (viii) It underwrites issues of stocks, shares, debentures, and other securities in which it is authorised to invest funds.
- (ix) It administers, singly or jointly, estates for any purpose as executor, trustee or otherwise.
- (x) It draws bills of exchange and grants letters of credit payable out of India.
- (xi) It buys bills of exchange payable out of India with the approval of the Reserve Bank; it subscribes buys, acquires, holds and sells shares in the capital of banking companies.

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Views and Answers provided may differ from UP BOARD due to difference in assumptions taken in support of the answers .

In such case answers as provided by "UP BOARD" will be deemed as final .